Adams, Hope

From:	Wessinger-Hill, JoAnne
Sent:	Monday, July 26, 2021 11:36 AM
To:	Hall, Roger; Grube-Lybarker, Carri; John J. Pringle, Jr.; Heather Smith; Heather Smith; Pittman, Jenny; fellerbe@robinsongray.com; fellerbe@robinsongray.com
Cc:	PSC_Contact; Besley, Sharon
Subject:	RE: Hearing Exhibit #8(Cross Examination Exhibit) -- DN 2020-263-E
Attachments:	DEC DEP Hanson Cross Exhibit 7.PDF

Parties:

Attached is a copy of the Cross Examination Exhibit of Duke regarding Witness Hanson.

Jo Anne

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DUKE ENERGY.

PROPRIETARY AND CONFIDENTIAL

August 20, 2020

Via Email and Priority Mail

Ms. Carolyne Murff
Senior Vice President
Cherokee County Cogeneration Partners, LLC
1700 Broadway, 35th Floor
New York, NY 10019

Re: Cherokee County Cogeneration Partners, LLC ("Cherokee") letter dated July 20, 2020

Dear Ms. Murff:

Duke Energy Progress, LLC ("DEP" or the "Company") is in receipt of Cherokee County Cogeneration Partners, LLC's ("Cherokee") letter dated July 20, 2020. DEP has provided responses to the questions below:

1. Please provide the methodology and any back-up information that DEP used to calculate the On-Peak and Off-Peak Energy Prices. How were the On-Peak and Off-Peak and summer and non-summer periods determined? Were the avoided cost rates and underlying methodology filed with the State Commission? If so, please provide any supporting calculations or other documentation filed with the Commission, as well as any orders issued by, or letters or other communications received from, the Commission noting approval or acceptance of the avoided cost rates and the underlying methodology.

RESPONSE: The energy pricing by period is the result of using the methodology approved by the South Carolina Public Service Commission in Docket No. 2019-186-E. The approved methodology involves dispatch modeling the full generation fleet, including purchases, against total retail and wholesale load to establish a base-case cost of production (fuel and other variable production costs). A change-case is then created by inserting 100 MW of QF capacity running 7x24 into the base case. The addition of this QF capacity displaces other resource generation, thereby reducing their production costs. The reduction in system production cost represents "avoided" production cost, which is compiled on an energy pricing period basis. Additional adjustments account for working capital and avoided losses.

2. Please provide the underlying monthly gas curve used by DEP to determine the On-Peak and Off-Peak Energy Prices and does this reflect recently announced cancellation of the Atlantic Coast Pipeline? If so, please explain how the impact of that cancellation was incorporated in the avoided cost rates.

RESPONSE: The ACP cancellation was not factored into the pricing. The DEP avoided cost pricing was based on an April 2020 update of fuel costs. Gas prices were updated in April to reflect the forward market for natural gas at that time.

3. Please provide the methodology and any back-up information that DEP used to calculate the Capacity prices. Why are the payments only applicable to the morning and evening periods for December – March?

RESPONSE: Capacity pricing is calculated from the annualized cost of simple cycle combustion turbine capacity, based on the methodology approved by the PSC in Docket No. 2019-186-E. These costs are split between summer and winter capacity seasons on the basis of loss of load expectation (LOLE), which also provided the basis for the capacity season definitions.

4. Please explain why payment for the avoided cost of capacity on a $/MWh delivered basis is appropriate for a dispatchable gas-fired facility? Is this consistent with how DEP is reimbursed through rates for the fixed capital and operating costs of dispatchable capacity avoided by contracting with Cherokee?

RESPONSE: The avoided cost was provided on $/MWh consistent with typical time differentiated avoided cost rate formats and is not a reflection of a specific dispatchable gas fired facility or a specific rate reimbursement methodology.

5. With regard to the proposed 5-year term, please provide any supporting data or documentation supporting the 5-year term. Similar to no. 1 above, please provide any orders issued by, or any letters or communications received from, the Commission noting approval or acceptance of the 5-year term as the appropriate term for a PURPA power purchase agreement and why the 10-year term offered by DEP to other Qualifying Facilities is not available to Cherokee. Also, how does DEP evaluate similar capacity resources built by DEP; is a 5-year assumed life used?

RESPONSE: The 10-year term was not offered to Cherokee because SC law only requires PPAs of ten years in duration to be offered to small power producers, which Cherokee is not. (*See* S.C. Code Ann. § 58-41-20(F)(1))

6. Describe the energy delivery requirements contemplated under DEP's proposed PPA? Is this PPA based on a firm 24x7 delivery except for under certain exemptions provided for in the PPA?

RESPONSE: The Facility Performance Requirements, including the Output Requirements, are described in Section 8 of the PPA.

7. Describe the Delivery Point – in particular, confirm that a designated network resource in DEC is deemed deliverable to the Delivery Point.

RESPONSE: The Delivery Point is defined in Section 1.23 of the PPA. This Delivery Point contemplates the QF delivering the energy directly to DEP. Delivery to DEC does not constitute delivery to DEP. The QF shall be responsible for all transmission charges and line losses associated with delivering the power into the DEP system.

8. Describe the performance standards Duke must undertake to achieve Commission Approval of the PPA, assume it's the same standard as a self-build facility

RESPONSE: DEP will file the PPA for acceptance with the PSC. PSC approval of the PPA is not required.

9. Discuss the relevance of the waiver of PURPA rights in Section 26.6 of the PPA.

RESPONSE: The requirements in Section 26.6 are for the protection of DEP's customers and are consistent with the PPA as approved by the South Carolina Public Service Commission. This Section does not constitute a waiver of PURPA rights but instead is part of the remedy available to Duke Energy if the QF defaults under a PURPA contract and attempts to resell the energy at a higher price.

10. Please confirm that the obligations of Seller in Section 7 are treated in a similar manner to a Duke self-built asset and not passed through to ratepayers

RESPONSE: Cherokee, as a QF seeking to sell the output to DEP under PURPA is entitled to a contract rate equal to DEP's avoided cost. The rate specified in this PPA is equal to DEP's estimated avoided cost for the period covered under the PPA and was calculated in accordance with the methodology approved by the South Carolina Public Service Commission as further detailed in our response to Question 1 above. All costs associated with the operation and maintenance of the Facility, including the obligations specified in Section 7 of the PPA are the responsibility of the QF and are consistent with the PPA as approved by the South Carolina Public Service Commission.

Due to the delay in Duke Energy's response to your questions, Duke is offering to extend the deadline for your response to the DEP PPA from August 23 to September 4. Please feel free to contact me at (727) 820-4500 if you have any further questions.

Sincerely,

Michael T. Keen
Duke Energy
Business Development Manager